

**Les Cheneaux Community Schools**

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**Financial Report  
with Supplementary Information**

**June 30, 2008**

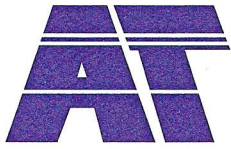
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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**Independent Auditor's Report**

Superintendent and Board of Education  
Les Cheneaux Community Schools  
Cedarville, MI 49719

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Les Cheneaux Community Schools as of and for the year ended June 30, 2008, which collectively comprise the Les Cheneaux Community School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Les Cheneaux Community School's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Les Cheneaux Community Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Superintendent and Board of Education  
Les Cheneaux Community Schools

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2008 on our consideration of Les Cheneaux Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis and the required supplementary information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Les Cheneaux Community School's basic financial statements. The combining nonmajor fund financial statements and Student Activity Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 21, 2008

## **Administration's Discussion and Analysis**

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Les Cheneaux Community Schools, a K-12 School District located in Mackinac County, Michigan, implemented the provisions of Government Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Les Cheneaux Community Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

### **Fund Financial Statements:**

The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, which are comprised of principal and interest payments and capital projects.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

### **District-Wide Financial Statements:**

The District-Wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-Wide financial statements.

**Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2008 and 2007.

**Net Assets Summary**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current assets	\$ 678,363	\$ 570,865
Noncurrent assets:		
Capital assets, net book value	5,367,090	5,563,117
Issuance cost for bonds, net of amortization	<u>67,205</u>	<u>74,959</u>
Total Noncurrent Assets	<u>5,434,295</u>	<u>5,638,076</u>
Total assets	<u>\$ 6,112,658</u>	<u>\$ 6,208,941</u>
<b>Liabilities</b>		
Current liabilities	\$ 652,461	\$ 689,936
Long-term liabilities	<u>2,877,805</u>	<u>3,185,520</u>
Total liabilities	<u>3,530,266</u>	<u>3,875,456</u>
<b>Net Assets</b>		
Invested in capital assets – net of related debt	2,136,328	2,266,311
Restricted various funds	420,166	217,622
Unrestricted	<u>25,898</u>	<u>(150,448)</u>
Total net assets	<u>2,582,392</u>	<u>2,333,485</u>
Total liabilities and net assets	<u>\$ 6,112,658</u>	<u>\$ 6,208,941</u>



**Analysis of Financial Position**

During fiscal year ended June 30, 2008, the District's net assets increased by \$248,907.

**A. Depreciation Expense**

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2008 depreciation expense was \$205,407.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

**B. Capital Outlay Acquisitions**

Actual capital acquisitions for fiscal year ended June 30, 2008 were \$83,393.

Combined with the increase in accumulated depreciation, net assets (i.e., net book value) invested in capital assets decreased by \$196,027 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

**C. Debt, Principal Payments**

The District made principal payments on long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	<u>Balance</u> <u>06/30/07</u>	<u>New</u> <u>Borrowings</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>06/30/08</u>
Bonds Payable	\$ 3,338,088	\$ -	\$ 238,754	\$ 3,099,334
Notes Payable	-	8,490	758	7,732
Compensated Absences and Retirement Benefits	<u>206,312</u>	<u>234</u>	<u>28,950</u>	<u>177,596</u>
Totals	<u>\$ 3,544,400</u>	<u>\$ 8,724</u>	<u>\$ 268,462</u>	<u>\$ 3,284,662</u>

**Results of Operations:**

For the fiscal year ended June 30, 2008 and 2007, the District wide results of operations were:

	<u>2008</u>	<u>2007</u>
<b>General Revenue:</b>		
Property Taxes Levied for General Operations	\$ 2,329,841	\$ 2,162,951
Property Taxes Levied for Debt Service	559,976	528,265
Property Taxes Levied for Capital Projects	89,954	85,542
Other – Federal, State and Local	451,383	785,342
Other – Investment Earnings	49,546	86,136
Other – Other Miscellaneous	<u>39,428</u>	<u>67,703</u>
Total General Revenue	<u>3,520,128</u>	<u>3,715,939</u>
<b>Program Revenue:</b>		
Charges for Services – Local	140,988	119,194
Operating Grants – Federal and State	<u>484,557</u>	<u>507,131</u>
Total Program Revenue	<u>625,545</u>	<u>626,325</u>
<b>Expenses:</b>		
Instruction and Instructional Service	1,864,231	2,039,982
Support Services	1,437,242	1,473,684
Food Services	126,116	148,585
Athletics	102,198	101,683
Interest on Long-Term Debt	161,572	110,705
Depreciation (Unallocated)	<u>205,407</u>	<u>198,690</u>
Total Expenses	<u>3,896,766</u>	<u>4,073,329</u>
Changes in Net Assets	248,907	268,935
Net Assets – Beginning	<u>2,333,485</u>	<u>2,064,550</u>
Net Assets – Ending	<u>\$ 2,582,392</u>	<u>\$ 2,333,485</u>

**Property Taxes levied for General Operations (General Fund Property Taxes)**

The District levies 18.0 mills of property taxes for operations (General Fund) on Non-Homestead Properties. The District also levies 2.5 mills for school bonds, .45 mills for school bus bonds, and .4772 mills for its sinking fund. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

During fiscal year 2007-2008, the District's Non-Homestead TV was \$127,803,502 as reported to the district by Mackinac County in May, 2007 and as reported by the district on the L-4029. Throughout the year, however, the Non-Homestead TV can be adjusted by the Michigan Tax Tribunal, July or December Township Boards of Review, and/or a Michigan State Tax Commission Official Order.

**Per Student, Foundation Allowance:**

Annually, the State of Michigan sets the per student foundation allowance. The Les Cheneaux Community Schools foundation allowance was \$7,612 per student for the 2007-2008 school year. This is an increase of \$87 over the District's 2006-2007 foundation allowance per student of \$7,525.

**Student Enrollment:**

The District's student enrollment for the fall count of 2007-2008 was 345 students. The District's enrollments have gradually declined in the past five years. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>
2007 – 2008	345.00
2006 – 2007	371.00
2005 – 2006	384.09
2004 – 2005	415.00
2003 – 2004	413.09

Subsequent to year end June 30, 2008; preliminary student enrollments for future years indicate that enrollments will continue to decline.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**
**General Fund Revenue Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual &amp; Original Budget</u>	<u>Revenues Variance Actual &amp; Final Budget</u>
2003 – 2004	3,549,885	3,582,293	3,552,165	2,280	(30,128)
2004 – 2005	3,481,849	3,633,536	3,681,707	199,858	48,171
2005 – 2006	3,472,389	3,512,669	3,524,783	52,394	12,114
2006 – 2007	3,453,057	3,510,605	3,526,311	73,254	15,706
2007 – 2008	3,321,927	3,311,542	3,316,666	(5,261)	5,124

**General Fund Expenditures Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual &amp; Original Budget</u>	<u>Expenditures Variance Actual &amp; Final Budget</u>
2003 – 2004	3,495,747	3,631,805	3,576,345	(80,598)	55,460
2004 – 2005	3,462,354	3,451,495	3,471,779	(9,425)	(20,284)
2005 – 2006	3,534,881	3,588,863	3,605,620	(70,739)	(16,757)
2006 – 2007	3,417,460	3,637,556	3,636,085	(218,625)	1,471
2007 – 2008	3,329,873	3,400,395	3,413,258	(83,385)	(12,863)

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Les Cheneaux Community Schools amends its budget quarterly during the school year. For the fiscal year 2007-2008, the budget was amended throughout the year.

**Change from Original to Final Budget:**

## General Fund Revenues:

Total Revenues Original Budget	\$ 3,321,927
Total Revenues Final Budget	<u>3,311,542</u>
Decrease in Budgeted Revenues	<u>\$ 10,385</u>

The District's general fund revenues were higher than the final budget by \$5,124, a variance of .15%.

## General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 3,329,873
Total Expenditures Final Budget	<u>3,400,395</u>
Increase in Budgeted Expenditures	<u>\$ 70,522</u>

The District's expenditures were higher than the final budget by \$12,863 a variance of .38%.

**Contacting the District's Financial Management:**

This financial report is designed to provide our taxpayers, creditors, investors, and constituents with a general overview of the Les Cheneaux Community School's finances and to demonstrate the District's accountability for the revenues it receives. If you have any questions concerning this report please contact Rodney Goehmann, Superintendent, or Kris Hill, Business Manager at 298 East M-134, P.O. Box 366, Cedarville, Michigan 49719, or by calling 906-484-2256 during the hours of 8:00 A.M. to 4:00 P.M.

## **Basic Financial Statements**

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# Les Cheneaux Community Schools

## Statement of Net Assets June 30, 2008

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash and equivalents	\$ 486,677
Accounts receivable	186,881
Inventories	1,816
Prepays & other assets	2,989
Total current assets	678,363
<b>Noncurrent Assets</b>	
Capital assets, net of accumulated depreciation	5,367,090
Issuance costs of bonds, net of amortization	67,205
Total noncurrent assets	5,434,295
Total assets	\$ 6,112,658
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 18,461
Accrued salaries and liabilities	194,746
Deferred revenues	10,434
Current portion of long-term debt	406,857
Accrued interest	21,963
Total current liabilities	652,461
<b>Noncurrent Liabilities</b>	
Bonds and notes payable	2,823,905
Termination and post-retirement benefits payable	53,900
Total noncurrent liabilities	2,877,805
Total liabilities	3,530,266
<b>Net Assets</b>	
Invested in capital assets, net of related debt	2,136,328
Restricted for:	
Food service	218
Debt service	192,913
Athletics	13,992
Capital projects	113,043
Self funded insurance	100,000
Unrestricted	25,898
Total net assets	\$ 2,582,392

# Les Cheneaux Community Schools

## Statement of Activities Year Ended June 30, 2008

		Program Revenues		Governmental
		Charges for Services	Contributions & Operating Grants	Activities Net (Expense) Revenue and Changes in Net Assets
	Expenses			
<b>Functions/Programs</b>				
Government Activities:				
Instruction and Instructional Services	\$ 1,864,231	\$ 9,910	\$ 422,327	\$ (1,431,994)
Support services	1,437,242	33,012	-	(1,404,230)
Food Services	126,116	38,012	62,230	(25,874)
Athletics	102,198	60,054	-	(42,144)
Interest on long-term debt	161,572	-	-	(161,572)
Depreciation (Unallocated)	205,407	-	-	(205,407)
Total Governmental Activities	<u>\$ 3,896,766</u>	<u>\$ 140,988</u>	<u>\$ 484,557</u>	(3,271,221)
General Revenues:				
Taxes				
Property taxes, levied for general operations				2,329,841
Property taxes, levied for debt service				559,976
Property taxes, levied for capital projects				89,954
Grants (unrestricted)				451,383
Interest and investment earnings				49,546
Miscellaneous				39,428
Total General Revenues				<u>3,520,128</u>
<b>Changes in Net Assets</b>				248,907
Net assets:				
Beginning of year				<u>2,333,485</u>
End of year				<u>\$ 2,582,392</u>



# Les Cheneaux Community Schools

## Balance Sheet Governmental funds June 30, 2008

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and equivalents	\$ 193,409	\$ 155,339	\$ 104,397	\$ 33,532	\$ 486,677
Accounts receivable	186,235	-	-	646	186,881
Due from other funds	20,294	37,796	8,746	-	66,836
Inventory	-	-	-	1,816	1,816
Prepays & other assets	2,989	-	-	-	2,989
Total assets	<u>\$ 402,927</u>	<u>\$ 193,135</u>	<u>\$ 113,143</u>	<u>\$ 35,994</u>	<u>\$ 745,199</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 16,971	\$ -	\$ -	\$ 1,490	\$ 18,461
Accrued salaries and liabilities	194,624	122	-	-	194,746
Deferred Revenues	10,434	-	-	-	10,434
Due to other funds	46,342	100	100	20,294	66,836
Total liabilities	<u>268,371</u>	<u>222</u>	<u>100</u>	<u>21,784</u>	<u>290,477</u>
<b>Fund Balances</b>					
Reserved for debt service	-	192,913	-	-	192,913
Unreserved and undesignated	34,556	-	-	-	34,556
Designated, food services	-	-	-	218	218
Designated, athletics	-	-	-	13,992	13,992
Designated, capital projects	-	-	113,043	-	113,043
Designated, self-funded insurance	100,000	-	-	-	100,000
Total fund balances	<u>134,556</u>	<u>192,913</u>	<u>113,043</u>	<u>14,210</u>	<u>454,722</u>
Total liabilities and fund balances	<u>\$ 402,927</u>	<u>\$ 193,135</u>	<u>\$ 113,143</u>	<u>\$ 35,994</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	\$ 7,297,023	
Accumulated depreciation is	<u>(1,929,933)</u>	
		5,367,090
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds and notes payable		(3,031,194)
Compensated absences		(177,596)
Deferred bond premiums		(130,953)
Deferred loss on bond refunding		46,327
Issuance costs for bonds		74,959
Amortization - net		1,000
Accrued interest is not included as a liability in governmental funds		<u>(21,963)</u>
Net assets of governmental activities		<u>\$ 2,582,392</u>

# Les Cheneaux Community Schools

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2008

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Totals
<b>Revenues</b>					
Local sources	\$ 2,412,191	\$ 559,976	\$ 89,954	\$ 98,066	\$ 3,160,187
State sources	584,808	-	-	10,626	595,434
Federal sources	288,902	-	-	59,918	348,820
Interest earned	30,765	15,024	3,010	747	49,546
Total Revenues	3,316,666	575,000	92,964	169,357	4,153,987
<b>Expenditures</b>					
Current:					
Athletics	-	-	-	102,198	102,198
Food service	-	-	-	134,430	134,430
Debt service	-	474,284	-	-	474,284
Capital outlay	83,393	-	2,066	-	85,459
Instruction and instructional services	1,892,623	-	-	-	1,892,623
Support services	1,437,242	-	-	-	1,437,242
Total expenditures	3,413,258	474,284	2,066	236,628	4,126,236
<b>Excess of Revenues (Expenditures)</b>	(96,592)	100,716	90,898	(67,271)	27,751
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of assets	75,000	-	-	-	75,000
Loan proceeds	8,490	70,000	-	-	78,490
Operating transfers in	69,778	-	-	77,984	147,762
Operating transfers out	(77,984)	(69,778)	-	-	(147,762)
Total other financing sources (uses)	75,284	222	-	77,984	153,490
<b>Net Changes in Fund Balances</b>	(21,308)	100,938	90,898	10,713	181,241
<b>Fund Balances - Beginning of year</b>	155,864	91,975	22,145	3,497	273,481
<b>Fund Balances - End of year</b>	\$ 134,556	\$ 192,913	\$ 113,043	\$ 14,210	\$ 454,722

# Les Cheneaux Community Schools

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities Year Ended June 30, 2008

Net Changes in fund balances - Total governmental funds \$ 181,241

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	85,459	
Current Depreciation Expense	<u>(205,407)</u>	(119,948)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:	
Bond Principal	300,000
Proceeds from Loans	(78,490)
Proceeds from sale of assets	(75,000)
Amortization of Bond Premium	13,547
Amortization of Loss on Bond Refunding	(4,793)
Amortization of Bond Issuance Costs	(7,754)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Compensated absences	28,390
Accrued Interest	<u>11,714</u>

Changes in net assets of governmental activities	<u><u>\$ 248,907</u></u>
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**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2008**

	Private- Purpose Trust	Agency Fund
<b>Assets</b>		
Cash and short-term investments	\$ 7,403	\$ 78,437
<b>Liabilities</b>		
Due to other units	\$ -	\$ 78,437
<b>Fiduciary Net Assets</b>		
Restricted for scholarships	\$ 7,403	

## Les Cheneaux Community Schools

### Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2008

	Private- Purpose Trust
<b>Additions</b>	
Contributions and proceeds from fundraising	\$ 300
Interest	274
Total Additions	574
<b>Deductions</b>	
Scholarships	250
Excess of Revenues Over Expenditures	324
<b>Fiduciary Net Assets - Beginning of Year</b>	7,079
<b>Fiduciary Net Assets - End of Year</b>	\$ 7,403

## **Notes to Financial Statements**

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Les Cheneaux Community Schools conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the statement include the following:

- An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District implemented the provisions of the Statement. The District also implemented GASB#33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

**Financial Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School District also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

**BASIS OF PRESENTATION****District-wide Statements**

The District's basic financial statements include both district-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds) except for fiduciary funds. The district-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The district-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.)

The District does not allocate indirect costs. In creating the district-wide financial statements, the District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

**Fund Financial Statements**

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

The various funds are grouped, in the combined financial statements in this report, into generic fund types of broad fund categories as follows:

**Governmental Funds** – Governmental Funds are those funds through which most School District functions typically are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Debt Service Funds – The Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Project Fund – The Capital Project fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made for the General fund. The School District's Capital Project fund is the Sinking Fund.

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Activities (Agency) Fund – The School District presently maintains a Student Activities Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

**Major and Nonmajor Funds**

The funds are further classified as major or nonmajor as follows:

**Fund**

***Major:***

- General Fund
- Debt Service
- Capital Projects

***Nonmajor:***

- Special Revenue
- Food Service
- Athletics

**Note 1 - Summary of Significant Accounting Policies (Continued)****Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the district-wide statement uses the economic resources measurement focus.

**Accrual**

Governmental activities in the district-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

For Les Cheneaux Community Schools taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes which are due September 15.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The tax rates for the year ended June 30, 2008, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	18.0 per \$1,000 taxable value (Non-Homestead Property Only)
Sinking Fund	.4746 per \$1,000 taxable value (Homestead and Non-Homestead Property)

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Cash and Investments – For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the District.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

Receivables – In the district-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include grants.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The District capitalizes only those assets over \$5,000.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

Other accounting policies are disclosed as appropriate in other notes to the financial statements.

**Compensated Absences** – The liability for compensated absences reported in the district-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-Term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Equity Classifications**

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantor, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted”.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Budgets**

The School District formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2008. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplementary Information.

**Note 3 - Deposits and Investments**

**Deposits**

The School District's deposits are deposited in one local financial institution. Deposits are carried at cost.

	<u>Primary Government</u>	<u>Fiduciary</u>
Deposits per Financial Statements:		
Checking, Savings and Certificates of Deposit	\$ <u>486,677</u>	\$ <u>85,840</u>

**Investment and Deposit Risk**

*Interest Rate Risk.* Through its investment policy, the School manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

**Note 3 - Deposits and Investments (Continued)**

*Credit Risk.* The Schools policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$563,450 of the School's bank balance of \$663,450 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School District to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Districts deposits are in accordance with state statutes.

**Note 4 - Capital Assets**

A summary of changes in governmental capital assets follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 298,500	\$ -	\$ (21,000)	\$ 277,500
Subtotal	<u>298,500</u>	<u>-</u>	<u>(21,000)</u>	<u>277,500</u>
<i>Capital assets being depreciated:</i>				
Building improvements	6,274,734	-	(60,000)	6,214,734
Furniture and equipment	283,912	-	(27,341)	256,571
Vehicles	420,324	83,393	(68,528)	435,189
Library Collection	<u>113,029</u>	<u>-</u>	<u>-</u>	<u>113,029</u>
Subtotal	<u>7,091,999</u>	<u>83,393</u>	<u>(155,869)</u>	<u>7,019,523</u>
<i>Less accumulated depreciation for:</i>				
Building improvements	(1,423,147)	(134,325)	12,000	(1,545,472)
Furniture and equipment	(118,244)	(19,661)	27,341	(110,564)
Vehicles	(260,781)	(48,270)	63,515	(245,536)
Library Collection	<u>(25,210)</u>	<u>(3,151)</u>	<u>-</u>	<u>(28,361)</u>
Subtotal	<u>(1,827,382)</u>	<u>(205,407)</u>	<u>102,856</u>	<u>(1,929,933)</u>
Net capital assets being depreciated	<u>5,264,617</u>	<u>(122,014)</u>	<u>(53,013)</u>	<u>5,089,590</u>
Governmental activity capital assets – net of depreciation	<u>\$ 5,563,117</u>	<u>\$ (122,014)</u>	<u>\$ (74,013)</u>	<u>\$ 5,367,090</u>

Depreciation expense for the School District is \$205,407. The School determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

**Note 5 - Long-Term Debt**

The following is a summary of changes in the Long-Term Debt for the year ending June 30, 2008:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation School Building and Site Bonds dated February 13, 2007, payable in annual installments of \$230,000 through \$405,000, plus interest semi- annually ranging from 4% to 5.5% through May 1, 2017.	\$ 3,230,000	\$ -	\$ 230,000	\$ 3,000,000	\$ 270,000

**Note 5 - Long-Term Debt (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loan Payable, dated January 2008, monthly installments of \$240, interest at 7.25%, due June 2011, secured by vehicle.	-	8,490	758	7,732	2,393
Loss on bond refunding.	(46,327)	-	(4,793)	(41,534)	(4,793)
Unamortized premium on bond issuance.	130,953	-	13,547	117,406	13,547
Durant School Improvement Bonds, Series 1998, dated November 1998, payable in annual installments of \$0 through \$9,840, plus interest at 4.76% through May 2013.	23,462	-	-	23,462	2,014
Vested compensated absences	84,812	234	-	85,046	85,046
Vested retirement benefits	<u>121,500</u>	<u>-</u>	<u>28,950</u>	<u>92,550</u>	<u>38,650</u>
Total Long-Term Debt	<u>\$ 3,544,400</u>	<u>\$ 8,724</u>	<u>\$ 268,462</u>	<u>\$ 3,284,662</u>	<u>\$ 406,857</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 398,103	\$ 133,032
2010	309,384	121,958
2011	319,677	110,063
2012	332,017	97,849
2013	342,227	85,138
2014-2017	<u>1,507,382</u>	<u>198,377</u>
Total	<u>3,208,790</u>	<u>\$ 746,417</u>
Loss on bond refunding	(41,534)	
Unamortized premium on bond issuance	<u>117,406</u>	
Total debt service requirements	<u>\$ 3,284,662</u>	



**Note 5 - Long-Term Debt (Continued)**

\$192,913 is available in the debt service fund to service the general obligation bonds. There are limitations and restrictions contained in the various bond indentures. The School District is in compliance with all significant limitations and restrictions.

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations. Therefore, reasonable estimates of future payments required for accrued employee benefits cannot be determined as of June 30, 2008.

On February 13, 2007, the School issued general obligation bonds of \$3,230,000 with an interest rate of 4% to 5.5% to advance refund term bonds with an interest rate of 4.875% to 6.375%. The general obligation bonds were issued at a premium and after paying issuance costs of \$77,544 which includes the underwriters discount, the net proceeds were \$3,287,925. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the School reduced its total debt service requirements by \$212,489, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$131,987.

**Note 6 - Compensated Absences, Termination, and Post-Retirement Benefits****Sick Leave**

Vested sick leave is computed as follows:

<u>Employer Group</u>	<u>Rate/Day</u>	<u>Maximum Days</u>
Teachers	37.50	200
Administrators	37.50	200
Non-Certified	30.00	130
Transportation	30.00	130

Vested sick leave is paid to the employees upon retirement or termination.

**Vacation Days**

The Superintendent and Business Manager are allowed to vest 20 vacation days resulting in payment upon separation from service.

**Note 6 - Compensated Absences, Termination, and Post-Retirement Benefits (Continued)****Retirement Benefits**

Retirement benefits are vested to teachers and administrators who qualify for retirement under the terms of the State retirement plan in which the School District participates.

Retirement benefits are computed as follows:

- 1) \$100 for each year of service to Les Cheneaux.
- 2) \$4,900/year until retiree reaches age 62 (maximum 5 years).

The amount recorded as a current year expenditure for post-retirement stipends is \$38,650. Currently, eight employees are receiving post-retirement benefits.

**Total Vested Benefits**

The total vested sick leave, termination benefits, and liability for unused vacation days at June 30, 2008 are summarized as follows:

Vested Compensated Absences	\$ 85,046
Vested / Estimated Termination Benefits	<u>92,550</u>
Total	<u>\$ 177,596</u>

**Note 7 - Defined Benefit Pension Plan****Plan Description**

The District contributed to the statewide Michigan Public School Employee's Retirement System (MPERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and currently operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by contacting the Michigan Public Schools Employees' Retirement System, P.O. Box 30026, Lansing, Michigan 48909.

**Funding Policy**

Basic Plan members make no contributions. Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

**Note 7 - Defined Benefit Pension Plan (Continued)**

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount of fund retiree health care benefit amounts on a cash disbursement basis.

The rates for the year ended June 30, 2008 were 17.74% from July 1, 2007 through September 30, 2007 and 16.72% from October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees.

The District's contributions to MPSERS for the current and two preceding years were as follows:

<u>Year Ended June 30,</u>	<u>Employer Contribution</u>
2007	\$ 293,833
2006	328,213
2005	290,682

**Post Employment Benefits**

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

**Note 8 - Interfund Receivable and Payables, and Transfers**

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

**Interfund Payables:**

DUE FROM OTHER FUNDS					
DUE TO OTHER FUNDS		General Fund	Debt Service Fund	Other Nonmajor Funds	Total
	General Fund	\$ -	\$ 37,796	\$ 8,546	\$ 46,342
	Debt Service Fund	-	-	100	100
	Other Nonmajor Funds	<u>20,294</u>	<u>-</u>	<u>100</u>	<u>20,394</u>
	Total	<u>\$ 20,294</u>	<u>\$ 37,796</u>	<u>\$ 8,746</u>	<u>\$ 66,836</u>

**Note 8 - Interfund Receivable and Payables, and Transfers (Continued)**

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers:**

		TRANSFERS OUT		
TRANSFERS IN		General Fund	Debt Service Fund	Total
	General Fund	\$ -	\$ 69,778	\$ 69,778
	Other Nonmajor Funds	<u>77,984</u>	<u>-</u>	<u>77,984</u>
	Total	<u>\$ 77,984</u>	<u>\$ 69,778</u>	<u>\$ 147,762</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 9 - Risk Management**

The School District is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for School Districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**Note 10 - Commitments and Contingencies**

The School District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2008.

**Note 11 - Sinking Fund**

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds of Sinking Funds in Michigan.

**Note 12 - Subsequent Event**

In July of 2008, the District incurred debt in the amount of \$470,000 for 2008 School Building and Site Bonds. These bond proceeds will be used for roof and technology replacement.

**Note 13 - Excess Expenditures Over Appropriations**

Public Act 2 of 1968, as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the School's actual expenditures were in excess of amounts appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Capital Outlay	\$ 69,778	\$ 83,393	\$ (13,615)

**Note 14 - Related Parties**

The School provides office space to an organization whom a Board Member is an employee of. No rent is currently being charged. The estimated fair market value of this rent is deemed to be approximately \$3,000 per year.

## **Required Supplementary Information**

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# Les Cheneaux Community Schools

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance From Final Amended Budget
<b>Revenues:</b>				
<b>Local sources:</b>				
Taxes	\$ 2,154,908	\$ 2,326,610	\$ 2,326,610	\$ -
Delinquent taxes	-	3,231	3,231	-
Interest	39,000	30,766	30,765	(1)
Shared revenue	23,900	33,013	33,012	(1)
Charges for Services & Rents	7,500	9,910	9,910	-
Other	36,450	34,303	39,428	5,125
<b>Total Local Sources</b>	<b>2,261,758</b>	<b>2,437,833</b>	<b>2,442,956</b>	<b>5,123</b>
<b>State sources:</b>				
At Risk Students	85,000	97,601	97,602	1
Foundation Membership Grant	629,568	405,432	405,432	-
Special Education Headlee 51c	78,285	77,801	77,801	-
Durant Funds	3,974	3,973	3,973	-
<b>Total State Sources</b>	<b>796,827</b>	<b>584,807</b>	<b>584,808</b>	<b>1</b>
<b>Federal sources:</b>				
Title I	78,053	73,947	73,947	-
Title II - A & D	21,708	21,561	21,561	-
Title V	1,317	1,152	1,152	-
REAP-SRSA Grant	25,234	22,714	22,714	-
Title VII	28,733	32,927	32,927	-
Impact Aid	52,873	85,854	85,854	-
Special Education Flow Through	47,424	42,848	42,848	-
Other	8,000	7,899	7,899	-
<b>Total Federal Sources</b>	<b>263,342</b>	<b>288,902</b>	<b>288,902</b>	<b>-</b>
<b>Total Revenues</b>	<b>3,321,927</b>	<b>3,311,542</b>	<b>3,316,666</b>	<b>5,124</b>
<b>Expenditures:</b>				
<b>Instruction:</b>				
Elementary	637,761	629,159	629,158	1
Middle School	234,781	232,585	232,018	567
High School	564,917	553,618	553,619	(1)
School Band	8,415	8,275	8,278	(3)
Indian Education	28,733	32,927	32,927	-
Special Education	206,925	218,801	218,797	4
Title I	77,691	73,947	73,947	-
REAP Grant	25,121	22,714	22,714	-
Title IIA	20,816	20,866	20,866	-
At Risk	89,463	97,601	97,601	-
Tribal Funds	-	2,698	2,698	-
<b>Total Instruction</b>	<b>1,894,623</b>	<b>1,893,191</b>	<b>1,892,623</b>	<b>568</b>

# Les Cheneaux Community Schools

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance From Final Amended Budget
<b>Support Services:</b>				
Guidance	72,657	71,831	71,832	(1)
Library	1,750	1,341	1,340	1
Computer Technology	93,364	83,152	83,152	-
Board of Education	76,267	69,284	69,281	3
Executive Administration	211,378	211,767	211,770	(3)
School Administration	233,020	234,033	234,033	-
Business Services	52,000	62,658	62,659	(1)
Operation and maintenance	375,418	433,358	433,171	187
Transportation	206,665	225,269	225,269	-
Advisors	8,953	9,106	9,107	(1)
Other Activities	1,000	5,252	5,252	-
Vocational Education	33,000	30,375	30,376	(1)
<b>Total Support Services</b>	<b>1,365,472</b>	<b>1,437,426</b>	<b>1,437,242</b>	<b>184</b>
Capital Outlay	69,778	69,778	83,393	(13,615)
<b>Total Expenditures</b>	<b>3,329,873</b>	<b>3,400,395</b>	<b>3,413,258</b>	<b>(12,863)</b>
<b>Excess of Revenues (Expenditures)</b>	<b>(7,946)</b>	<b>(88,853)</b>	<b>(96,592)</b>	<b>(7,739)</b>
<b>Other Financing Sources (Uses):</b>				
Loan proceeds	-	-	8,490	8,490
Proceeds from sale of assets	-	75,000	75,000	-
Operating transfers in	69,778	69,778	69,778	-
Operating transfers out	(78,260)	(77,984)	(77,984)	-
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<b>\$ (16,428)</b>	<b>\$ (22,059)</b>	<b>(21,308)</b>	<b>\$ 751</b>
<b>Fund Balances - Beginning of year</b>			<b>155,864</b>	
<b>Fund Balances - End of year</b>			<b>\$ 134,556</b>	



**Les Cheneaux Community Schools****Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2008**

	Special Revenue Funds		
	Food Service	Athletics	Total
<b>Assets</b>			
Cash and equivalents	\$ 19,540	\$ 13,992	\$ 33,532
Inventories	1,816	-	1,816
Accounts receivable	646	-	646
Total Assets	<u>\$ 22,002</u>	<u>\$ 13,992</u>	<u>\$ 35,994</u>
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,490	\$ -	\$ 1,490
Due to other funds	20,294	-	20,294
Total Liabilities	<u>21,784</u>	<u>-</u>	<u>21,784</u>
<b>Fund Equity</b>			
Fund balance	<u>218</u>	<u>13,992</u>	<u>14,210</u>
Total Liabilities and Fund Equity	<u>\$ 22,002</u>	<u>\$ 13,992</u>	<u>\$ 35,994</u>

# Les Cheneaux Community Schools

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	Special Revenue Funds		
	Food Service	Athletics	Total
<b>Revenues:</b>			
Local sources			
Athletic ticket sales and fees	\$ -	\$ 60,054	\$ 60,054
Breakfast and lunch sales	38,012	-	38,012
Interest	254	493	747
State sources	10,626	-	10,626
Federal sources	59,918	-	59,918
Total Revenues	108,810	60,547	169,357
<b>Expenditures:</b>			
Athletics	-	102,198	102,198
Food Service	134,430	-	134,430
Total Expenditures	134,430	102,198	236,628
<b>Excess of Revenues (Expenditures)</b>	(25,620)	(41,651)	(67,271)
<b>Other Financing Sources (Uses):</b>			
Operating transfers in	25,500	52,484	77,984
Total Other Financing Sources (Uses)	25,500	52,484	77,984
<b>Net Change in Fund Balance</b>	(120)	10,833	10,713
<b>Fund Balances - Beginning of year</b>	338	3,159	3,497
<b>Fund Balances - End of year</b>	\$ 218	\$ 13,992	\$ 14,210

## **Other Supplementary Information**

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# Les Cheneaux Community Schools

## Schedule of Receipts and Disbursements

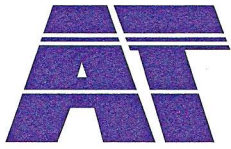
### Student Activities Fund

Year Ended June 30, 2008

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
Athletic Deficit	\$ -	\$ 20,367	\$ 13,624	\$ 6,743
Band	5,340	9,379	13,727	992
Band Trip	(21)	21	-	-
BB Fundraisers	782	15,451	15,619	614
Box Tops	647	798	555	890
Camp 6th Grade	1,375	38	350	1,063
Carnival	1,004	32	-	1,036
Central Office	-	91	-	91
Cheerleaders/Jr High	-	747	741	6
Class of 2007	162	2	164	-
Class of 2008	2,234	175	2,131	278
Class of 2009	2,468	4,091	5,469	1,090
Class of 2010	557	2,003	940	1,620
Class of 2011	559	2,242	915	1,886
Class Trip - 5th Grade	333	13,127	12,992	468
Computer Programming	13	-	-	13
CC Fundraiser	1,458	1,494	376	2,576
Drama Club	7,401	3,485	4,699	6,187
Elementary Artist	1,310	34	450	894
Elementary Office	452	1,568	1,307	713
Elementary Yearbook	-	1,683	-	1,683
Employee Recognition	310	9	-	319
FB Fundraisers	4,389	5,840	4,672	5,557
Footstep Challenge	1,530	1	1,523	8
Frog Fest	521	1,086	678	929
Golf Fund Raiser	321	51	-	372
High School Office	813	3,629	3,841	601
High School Science	1,000	13	568	445
Interest and Service Charges	2,937	3,417	6,354	-
Journalism	(17)	17	-	-
Junior Achievement	245	8	-	253
Junior YAC	500	1,047	-	1,547
Library	1,127	4,087	4,149	1,065
Mini-Grant	1	-	1	-
Miscellaneous	(289)	9,599	8,993	317
National Honor Society	563	2,662	3,217	8
Playground	1,962	62	-	2,024
Read A Thon	1,265	211	942	534
Recycling	327	2,397	1,385	1,339
Resource Room	1,663	52	-	1,715
Salmon-Fifth Grade	99	3	-	102
Scholarship	(1,000)	14,281	12,500	781
School Spirit	611	620	-	1,231
Shop	11,795	10,044	4,094	17,745
Social Studies Trip	-	5,344	2,700	2,644
Softball Fundraiser	25	1	-	26
Elementary Student Council	1,953	1,362	2,185	1,130
Middle School Student Council	554	1,907	1,714	747
High School Student Council	1,453	5,551	5,737	1,267
Technology	21	250	265	6
Thespian	714	23	-	737
Token Economy	250	553	250	553
Tournaments	3,570	5,892	5,556	3,906
Track Resurface	1,113	27	500	640
UP All-Stars Sports	4,608	-	4,608	-
VB Fundraisers	421	1,894	1,453	862
YAC	1,000	14	1,014	-
Yearbook	3,235	8,676	11,727	184
First National - Other	(163)	163	-	-
<b>Total Cash Balances</b>	<b>\$ 75,501</b>	<b>\$ 167,621</b>	<b>\$ 164,685</b>	<b>\$ 78,437</b>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**MEMBER AICPA**  
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**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Superintendent and Board of Education  
Les Cheneaux Community Schools  
Cedarville, MI 49719

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining information of Les Cheneaux Community Schools as of and for the year ended June 30, 2008, which collectively comprise the Les Cheneaux Community School's basic financial statements and have issued our report thereon dated August 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Les Cheneaux Community School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as item 08-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Les Cheneaux Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 08-1.

We noted certain matters that we reported to management of the Les Cheneaux Community Schools in a separate letter dated August 21, 2008.

This report is intended solely for the information of the Board of Education, management and federal and state awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 21, 2008

NONCOMPLIANCE WITH STATE STATUTES

**Expenditures in Excess of Appropriations—Budgetary Funds**

*Finding 08-1*

*Condition:* Our examination of procedures used by the Les Cheneaux Community School to adopt and maintain operating budgets for the School's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The School's 2007-2008 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2007-2008 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended June 30, 2008, expenditures were incurred in excess of amounts appropriated in the amended budget for the general fund on page 33 of the financial statements.

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

*Recommendation:* We recommend that the School and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the general fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Management's Response—Corrective Action Plan:* Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

*Status:* Corrected.



Section II – Financial Statement Findings (Continued)

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SIGNIFICANT DEFICIENCIES

**Preparation of the Financial Statements in Accordance  
with Generally Accepted Accounting Principles**

*Finding 08-2*

*Condition:* As part of the audit process, the School, like some other governments, has historically relied on the independent auditors to assist in the preparation of the School-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. Management feel's it is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

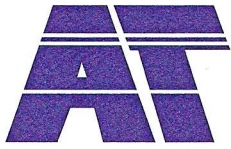
*Criteria:* Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

*Effect:* The School relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the School's internal controls. By definition, independent auditors should not be part of the School's internal controls.

*Cause:* Change in application of auditing standards.

*Recommendation:* We recommend that the School consider providing applicable employees with additional time and training that would allow them to fully prepare the GAAP financial statements. Should the Board choose not to address this issue, management and the Board of Education should realize that an increased risk is present.

*Management's Response – Corrective Action:* Historically it has been the practice for the independent auditors of School to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. The Board needs to evaluate the cost benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP or outsourcing this task to its external auditors in determining the best interests of the School.



**ANDERSON, TACKMAN & COMPANY, PLC**  
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**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Superintendent and Board of Education  
Les Cheneaux Community Schools  
Cedarville, Michigan 49719

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Les Cheneaux Community Schools for the year ended June 30, 2008, and have issued our report thereon dated August 21, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated July 29, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on August 20, 2008.

### **Significant Accounting Policies**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Les Cheneaux Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### ***Disagreement with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated August 21, 2008.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***Comments and Recommendations***

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

### **Flexible Spending Account (Prior Year)**

Although there is a plan administrator disbursing funds from the flexible spending account, the disbursements from this account requires Board approval as they do the disbursements from all the other accounts.

Status: Corrected.

### **Disbursements (Prior Year)**

We noted in our review of the disbursements, that purchase orders were not always attached with the check voucher. It is recommended that purchase orders be issued. Repetitive ordering or purchasing may also be accomplished by a blanket purchase order for a particular vendor, which indicates a maximum.

Status: Corrected.

### **Payroll (Prior Year)**

It was noted during our review of payroll, new hire forms were completed online, but there was no printed documentation of this in the file. It is recommended the finished new hire form be printed out for documentation of the completed form.

Status: Corrected.

We noted some I-9 Forms were not filled out completely. Columns B and C were not completed. We recommended more care be taken to fully complete the I-9 Forms for employees.

Status: Corrected.

### **Receipts (Prior Year)**

During our review of the receipts system controls, we noted a lack of account numbers on the receipt itself. It is recommended that account numbers be put onto the actual receipt to assist in proper posting of the receipt to the general ledger.

Status: Corrected.

It was also noted during our review of the receipts, that an Excel receipt worksheet is used to track receipts coming into the Central Office secretary. The worksheet does not include all receipts coming in. It is recommended that all receipts be put onto the Excel receipt worksheet and the worksheet be included in the monthly reconciliation process monthly.

Status: Corrected.

### **Agency Account (Prior Year)**

During our testing of the activity in the agency account, it was noted that the interest earned on the bank account is not distributed among the organizations that earned the interest. It was noted that the interest earned on the agency account is used to pay a scholarship and transferred to the high school and elementary accounts. We recommend that interest be allocated to the fund activities.

At June 30, 2007, some of the Activity Accounts had deficit balances. Activity accounts are only permitted to expend the funds they have taken in. They are not allowed to borrow from other activities thus creating a deficit balance.

Status: Corrected.

### **Form 1099's (Prior Year)**

Upon a review of 1099's filed, we noted several 1099's were not issued for officials in the Athletic Department. We recommend 1099's be issued to all unincorporated entities whom are paid greater than \$600 in compliance with the IRS Regulations.

Status: Corrected.

### **Fraud Policy (Prior Year)**

With the implementation of statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Status: Corrected.

### **Invoice Payment Approval (Prior Year)**

The School Board does not approve invoices prior to payment in accordance with State Statute. The School Board should approve all invoices prior to payment and establish a policy for early payment in order to receive credit or avoid late fees.

Status: Corrected.

### **Food Service USDA**

Upon a review of the food service fund, we noted that there was no recording of the USDA entitlement for the period. Care must be taken to properly report those amounts received under that program.

### **Capital Acquisitions**

During the year, a capital outlay was purchased through a direct disbursement as well as an amount financed. The disbursement was recorded, however the loan proceeds and associated capital outlay was not. Care must be taken to properly record the entire purchase price of the asset in capital outlay.

### **Conclusion**

This letter is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 21, 2008